

June 19, 2002

To: Supervisor Zev Yaroslavsky, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne Brathwaite Burke  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: David E. Janssen  
Chief Administrative Officer

## **STATE LEGISLATIVE UPDATE**

### **Budget Conference Committee Update**

Although the Budget Conference Committee had announced a Saturday meeting, it did not work over the weekend and reconvened late Monday afternoon. Two developments have complicated the work of the Conference Committee, lower than anticipated revenue collections in May and the Administration's request for a larger budget reserve.

Senator Steve Peace informed the conferees that the Administration had indicated that May income tax collections were "soft", some \$250 million lower than the downward revision in the May Revision. In addition, the State Controller, who is about to issue \$7.5 billion in Revenue Anticipation Warrants (RAWS) to cover the State's cash flow problem, had requested a \$2 billion reserve (instead of the Governor's proposed \$516 million) to assure lenders that the State would have adequate funds to repay the warrants at maturity. Based on these developments, the Davis Administration has now requested a \$1 billion reserve, plus another \$500 million "contingency reserve" to back up the warrants. In addition to the task of solving a \$24 billion budget problem, the conferees now have to resolve how to come up with approximately \$1.2 billion more to fund a higher reserve, as well as various budget cuts proposed by the Governor that the Legislature did not approve.

Assembly Member Darrell Steinberg requested the Department of Finance to cost out the budget cuts that have been approved which he believes total around \$7 billion. He believes this information will help to frame the discussion for increased revenues and/or additional

reductions. Senator Dick Ackerman has asked budget staff to list all the augmentations made to the Governor's proposed spending plan, as well as those items that the conferees agreed to fund at the level that was the higher of the two houses. As a result, all restorations made by the conference committee will be reviewed again for possible reduction or elimination as they attempt to balance the budget.

Senator Peace said he has no intention of sending a conference report to the floor unless he is convinced they have the required two-thirds vote. Republicans continue to maintain that expenditure reductions, not revenue increases, should be used to close the budget gap. On Monday, June 17, 2002, a coalition of more than 100 organizations - from AARP to the Western Center on Law and Poverty - urged the Governor and the Legislature to temporarily raise income taxes for the wealthiest Californians. According to the coalition, restoring the top two tax brackets to their 1995 levels would raise \$3.1 billion from 2.4 percent of California families.

When the Conference Committee reconvened on Tuesday, June 18, 2002, the Department of Finance presented some additional solutions to the budget problem, including two spending reductions in CalWORKs.

**CalWORKs Probation Funding.** Under this proposal, CalWORK's probation funding would be reduced \$50 million, thereby freeing up room under the State's MOE for other CalWORKs related items such as adult education. The County Probation Department estimates that it would lose \$20 million and have to close six probation camps if this proposal is adopted.

**CalWORKs Minimum Grant.** Under this proposal originally suggested by the Legislative Analyst's Office, grants of less than \$150 would be suspended or possibly eliminated. The estimated savings would be \$37 million.

In addition, the Department of Finance proposed some revenue enhancements including \$400 million from requiring withholding on stock options and employee bonuses, \$33 million from suspending the solar tax credit and \$175 million from suspending various other tax credits.

The Chair indicated that they hope to complete their work by Sunday evening.

### **Estimated Loss From State Budget Reductions**

Attached is the latest chart indicating the estimated loss of funding to the County from the Governor's proposed budget reductions and the Budget Conference Committee actions to

date. As shown on the second page of the chart, the loss from the Governor's proposals would be approximately \$309 million and the loss based on Conference Committee actions to date would be \$142 million. Some \$88 million of both amounts reflects the Federal Food Stamp error rate penalty.

### **Reimbursable State Mandates**

Last week the Conference Committee adopted the recommendations of a working group it had established to recommend changes in the mandate claim process. Some of the changes adopted include:

- a **three-year statute of limitations** for filing mandate claims starting from the date of enactment to the filing of the test claim. For mandates enacted prior to 2001, a one-year period was approved;
- providing the Legislature with **additional information about mandate costs**, including a requirement that the Commission on State Mandates indicate if the mandate was so identified by Legislative Counsel and, if so, how the cost compares to the fiscal committee estimate; additional and more useful information from the State Controller regarding mandate deficiencies; and recommendations from the Legislative Analyst's Office regarding mandates whose costs significantly exceed their cost estimate;
- requiring local agencies and school districts to **repay, with interest, invalid mandate** reimbursements;
- an **increase in the minimum claiming amount** from \$200 to \$1,000.

In addition, the Committee asked the Joint Legislative Audit Committee to conduct a review of contracts for local government and school district consultants who provide assistance during the claiming process. The Committee expressed concern about two mandates whose costs have far exceeded estimates - the Peace Officers Bill of Rights and school bus safety mandates.

### **Federal Tax Conformity Laws Under Legal Challenge**

SB 657 (Scott) and AB 1122 (Corbett), which brought California law into conformity with the Federal tax code regarding 2001 Federal law changes affecting pensions, individual retirement accounts, and qualified tuition plans, were signed into law as Chapter 34 and 35,

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respectively in early May and took effect immediately. In addition to the tax reductions in these bills, the measures also included tax increases for corporations, such as eliminating the deductions for private club dues and lobbying, to offset the loss of revenue.

On July 13, 2002, the Howard Jarvis Taxpayer Association and 44 Republican legislators filed suit to block the collection of taxes under these laws, maintaining that they were not approved by a two-thirds majority of the Legislature. Democratic lawmakers argued that the bills did not require a two-thirds majority because the reductions more than offset the increases. The suit was filed in the Court of Appeals so that the issue can be settled before the passage of a State budget.

We will continue to keep you advised.

DEJ:GK  
ML:JR:md

#### Attachment

c: Executive Officer, Board of Supervisors  
County Counsel  
All Department Heads  
Legislative Strategist  
Local 660  
Coalition of County Unions  
California Contract Cities Association  
Independent Cities Association  
League of California Cities  
City Managers Associations  
Buddy Program Participants

**ESTIMATED LOSS TO LOS ANGELES COUNTY FROM  
THE GOVERNOR'S BUDGET REDUCTIONS\*  
(Dollars in Millions)**

<u><b>Health</b></u>	<u><b>Governor</b></u>	<u><b>Conference Committee</b></u>
DSH Admin. Fee - Combined loss from January and May proposal <b>-conference agreed to Jan. cut only: \$11M loss</b>	\$ 23.0	\$ 11.2
Trauma Care - (County's share of \$6.8 M countywide) <b>-conference agreed to retain</b>	.47	0
<u><b>Mental Health</b></u>		
Adult (\$1.7M) and Children's (\$9.4M) System of Care <b>-conference restored Children's plus 1M for LA and Stanislaus</b>	11.1	0
AB 34 Homeless Adults – reduction <b>-conference rejected the cut</b>	3.5	0
Mental Health Managed Care Rates – decrease	1.9	1.9
<u><b>Public Social Services</b></u>		
Medi-Cal Admin. – 20% reduction	61.0	0
CalWORKs Admin. – 14% reduction <b>-conference restored \$21 M of \$88 M cut for 10.6% reduction</b>	26.0	19.8
Food Stamp Admin. – 20% reduction	35.0	0
IHSS Admin. – 20% reduction	8.1	0
Special Circumstances – elimination	2.27	2.27
<u><b>DCFS</b></u>		
Child Welfare Services Augmentation – reduction	9.6	0
Foster Care Admin.– reduction	6.4	0
CWS/CMS Staff Development – reduction	1.2	0
Adoptions Program Admin. – reduction	5.1	0

	<u>Governor</u>	<u>Conference Committee</u>
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**Public Safety**

Probation: \$2.3M Challenge Grant and \$87.00 OCJP grant)	\$ 2.4	\$ 2.4
Probation: CYA Sliding Fee Scale - cost increase	2.3	0
District Attorney: OCJP Grant - reduction	.9	.9
Public Defender: OCJP Grant - reduction	.13	.13
Sheriff: OCJP and other grants – reductions	1.32	1.32
Sheriff: High Tech Grant – reduction	1.5	1.5
Fire: cost shift for State Responsibility Areas <b>-conference rejected</b>	1.9	0

**Penalties**

Food Stamp Error Rate Penalty	88.0	88.0
CSS: Federal Penalty for State Failure to Implement Child Support Computer System	10.0	10.0

**Miscellaneous**

Ag: Red Imported Fire Ant Program - elimination	.94	.25
Public Library – combined reduction <b>-conference reversed earlier partial restoration</b>	2.3	2.3
DCSS: Adult Protective Services – 10% reduction <b>-conference rejected 10% cut</b>	2.4	0
CDC: ERAF transfer by redevelopment districts	.08	.08
Arts Commission.	.06	0
DCSS: CS Block Grant Minimum Guarantee	.14	.14

**Total**

**\$309 M**

**\$142 M**

GovernorConference Committee**FY 2003-04 Impact**

Mentally Ill Offender Crime Reduction Grant	\$1.6	\$1.6
– elimination of 3 <sup>rd</sup> year (Mental Health: \$1.3M Sheriff: \$265,000; Probation: \$124,000)		
<b>-conference adopted cut</b>		
Juvenile Justice Crime Prevention - elimination	32.7	0
<b>-conference restored full funding</b>		

**Temporary Loans**

Temporary Suspension of State Mandate Reimbursement	87.1	26.7
<b>-conference funds education related Mental Health mandates</b>		
CalWORKs Performance Incentives (includes Employment Services/Equity Adjustment)	120.0	123.5

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<b>Total</b>	<b>\$207.1</b>	
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*\* Table reflects estimated loss of State funds from the Governor's January and May Budget proposals. It does not represent the impact on the proposed County budget which would depend upon the level of State funding assumed by each department, as well as any offsetting funding (for example, Federal funding) that they may receive.*